Investors who prefer low risk may invest in fixed-income schemes, says Nityanand Prabhu of LIC Mutual Fund

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Premium

Nityanand Prabhu, Executive Director & Business Head, LIC Mutual Fund ***(LIC Mutual Fund)***

Investors should see if a fund manager has captured the upside when the market is in an uptrend and also managed to contain the downside in a falling market, says Nityanand Prabhu, Executive Director & Business Head, LIC Mutual Fund.

In an interview with *MintGenie*, Prabhu said that only informed investors should think of allocating money to thematic funds since these schemes involve taking higher risks for higher returns.

Edited Excerpts:

The effect of inflation is palpable. How do you think investors must replan their investment strategies accordingly?

Annual retail inflation in India eased to 5.1% in January 2024, the lowest in three months, from 5.69% in December 2023, matching the market expectations. - Inflation is falling faster than expected in most regions, amid unwinding supply-side issues and monetary policy measures. However, it may be desirable that the overall returns of the portfolio exceed that of the rate of inflation. Having said that, investors should keep in mind their investment goal, investment horizon, and risk appetite before making any investment decisions. Asset allocation strategy is the prudent way to achieve financial goals.

As someone adept at managing investments, how do you select the right mutual funds for investment?

Investors have varied types of needs. Investors need to identify their financial goals – for example paying for a downpayment on a house, paying for a car, funding retirement, or paying for a child's education, etc. Depending on a financial goal, time in hand, and risk profile, an investor should decide on an asset allocation and spread their investments across asset classes. Investors should ideally consult their financial advisors to ascertain suitable investments as per their requirements.

The recent AMFI data shows an increasing trend to invest in sectoral funds. What do you think is driving investors to put their money in thematic funds?

Investors are keen to benefit from policy changes and reforms. The government has unveiled many initiatives in sectors such as infrastructure, defence, power, and energy. The government's thrust in these sectors is likely to create significant value for investors. Hence investors are allocating part of their savings to thematic funds. Investors however should first build their core portfolios with the help of diversified equity schemes. Only informed investors should think of allocating money to thematic funds since these schemes involve taking higher risks for higher returns. Investors must bear in mind a key thing

When investing in active mutual funds, what do you consider to be the primary priorities?

An actively managed scheme should be assessed based on its performance across market cycles, quality of portfolio fund manager background, and investment track record.

No fund can outperform in all phases; there will be ups and downs. Investors need to focus on risk-adjusted returns. Investors should see if a fund manager has captured the upside when the market is in an uptrend and also managed to contain the downside in a falling market.

The idea of investment gained traction post-pandemic. In what manner has the psyche of Indian investors changed in the past two years? Which asset category do you think investors are banking on to secure their future?

The pandemic has taught a lesson to many about the key role of savings in their lives. Many investors look for various investment avenues to park their savings. During the pandemic, the mutual fund industry ramped up its digital infrastructure. Many new investors embraced the idea of digital transactions in that period and the ease of transacting played a key role in attracting investors to mutual funds. Investor awareness campaigns by mutual funds also worked. Stock markets resumed their upward journey after a quick fall in the pandemic and provided decent growth. All these factors culminated in renewed interest in mutual funds.

Investors with a moderate risk profile may invest in balanced advantage funds (asset allocation strategy). These schemes aim to participate in the upside and contain the downside by dynamically allocating money to stocks and bonds. Equity taxation of these schemes further sweetens the deal. Investors with a relatively longer timeframe and willing to take some risk may prefer to invest in multi-cap & flexi-cap funds. These schemes benefit from broad-based economic growth. Investors who prefer low risk may invest in fixed-income schemes.

From an investor's point of view, what advantages does investing in a recently established fund offer compared to investing in older, vintage funds?

Investors tend to benefit from the investment objective & growth potential of the holding in a scheme's portfolio. Investors are not aware of a scheme's holding at a new fund offer (NFO) stage. New schemes come with no baggage. But they also do not have a record of their past performance. Most investors allocate money to an NFO with an understanding that the theme is promising and may reward them in the future. As mentioned earlier, vintage funds have a performance track record and a clearly defined style of investment. Hence, investors can make a more informed call.

What is your advice to people who plan to retire late in their lives?

Near-term expenses can be funded by using a debt fund. The interviewee has explained a particular use case and not restricted it. Investors who plan to fund their expenses in the near term may allocate money to debt funds.

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